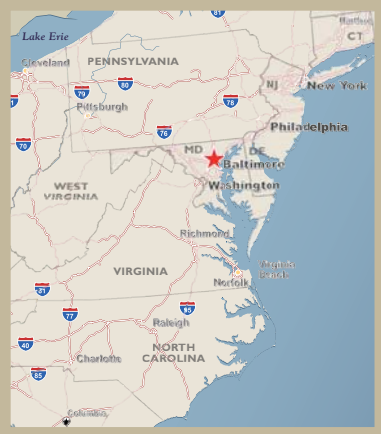


Market Report

OFFICE | YEAR-END | 2008

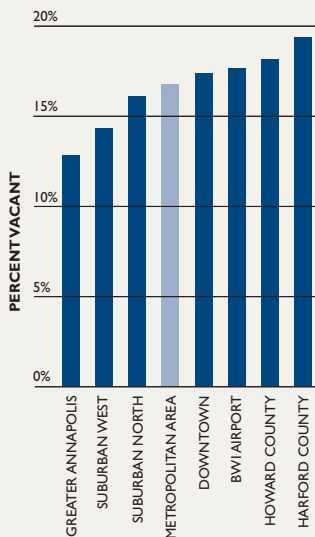


MARKET INDICATORS

2008



OFFICE VACANCY BY SUBMARKET



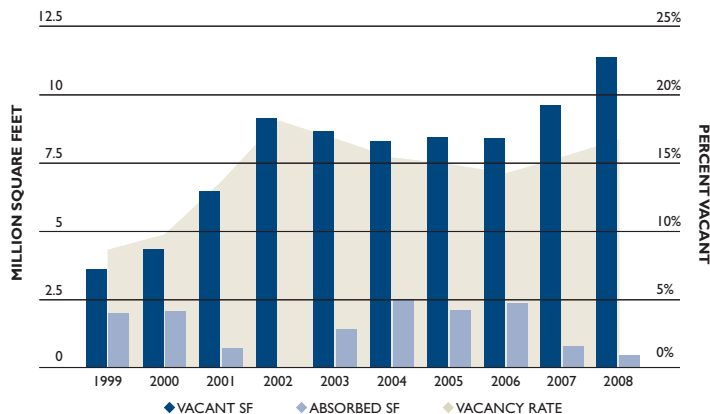
Overview

It comes as no surprise, in the wake of the recently confirmed recession, that the Baltimore Metropolitan Area office market continued to soften in 2008 for the second consecutive year. The vacancy rate rose to 16.8% from 15.2% a year ago, as the market added 1.86 million square feet of new space, while absorbing 448,000 square feet, the lowest amount since 2002. Employment growth began to slow over the course of the year. The unemployment rate climbed to 5.1% in October from 4% in January, although still better than October's national average of 6.5%. Lay-offs by such tenants as Constellation Energy, Zurich American Insurance, HSBC and Northwest Airlines dampened the effect of sizeable lease announcements by others — Northrop Grumman (160,000 square feet), Integral Systems (131,450 square feet) and CACI (60,000 square feet).

While leasing activity slowed, developers completed 1.8 million square feet of new construction, 82% of which remained available at year-end. Construction exceeded absorption in every market, pushing vacancy rates higher than a year ago. Over 75% of the new space was added in the northern Baltimore-Washington corridor — Howard and Anne Arundel Counties and the greater Annapolis area — with 85% of that still available. Some of the larger new buildings — 7740 Milestone Parkway and 8210 Dorsey Run Road — are located to capitalize on the growth around Ft. Meade resulting from the Base Realignment and Closure Act (BRAC). There is no question that BRAC could buffer the market against a protracted downturn in the economy, but until government agencies and contractors actually relocate, Baltimore remains dependent on the internal dynamics of the local tenant base.

Illiquidity in the credit markets, the gap in pricing expectations between buyer and seller, and pessimism about economic prospects suppressed investment sales volume for the year. There were still notable sales. Topping the list was Wells REIT II's purchase of 1580 A and B West Nursery Road from West Group/ASB Capital for \$301 per square foot. Those single tenant buildings were occupied by Northrop Grumman, which will lease a third building being developed by Opus.

HISTORIC VACANT & ABSORBED OFFICE SPACE



At year-end, Asset Capital Corporation sold the 121,322-square-foot, 20 S. Charles Street building to CSG Partners (Prudential) for \$76 per square foot.

Continued

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General Growth Properties sold the Carefirst-leased 10455 and 10453 Mill Run Circle properties in Owings Mills for \$244 per square foot. Liberty Property Trust sold the 93,850-square-foot, 5950 Symphony Woods building to Washington Capital Partners for \$166 per square foot, Principal Life Insurance sold the 215,345-square-foot Lakeview I & II in Columbia to The Goldstar Group for \$154 per square foot, while the Maryland Association of Realtors bought Sun Life's 51,971-square-foot-office building in Annapolis for \$246 per square foot. Oekos Management bought a nine-building, single-story office and flex portfolio in Rivers Business Park in Columbia for \$158 per square foot.

Capital Markets

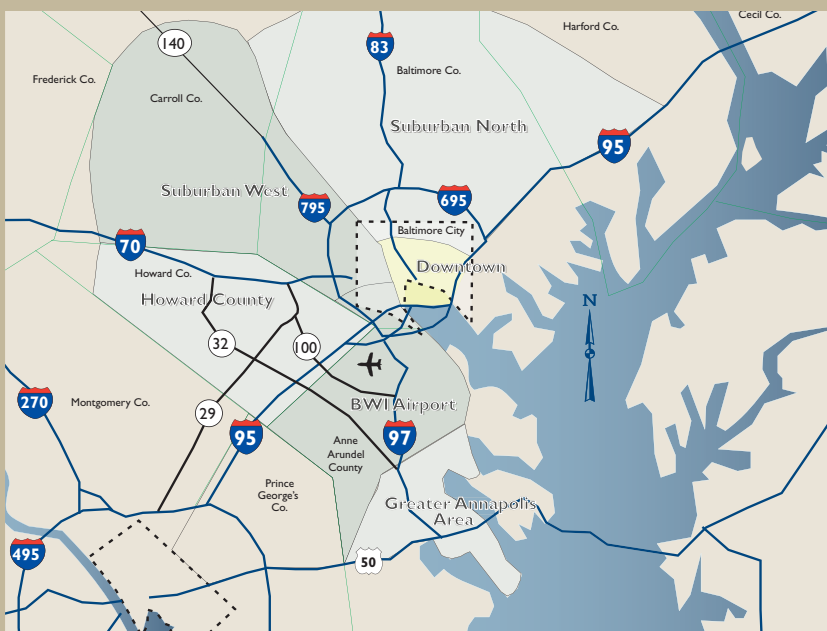
- With the weakening of tenant demand and scarcity of capital, asset values have dropped and cap rates continue to increase to more historical ranges with certainty of income and credit tenancies being valued with little or no attention given to tomorrow's promises.
- There were few transactions in downtown Baltimore, which saw a flurry of institutional quality asset sales between 2005 and

2007. During these uncertain times, we expect those select downtown buildings with proven waterfront locations to perform best in regards to rent growth and tenant retention, which will ultimately result in a stronger investor appetite.

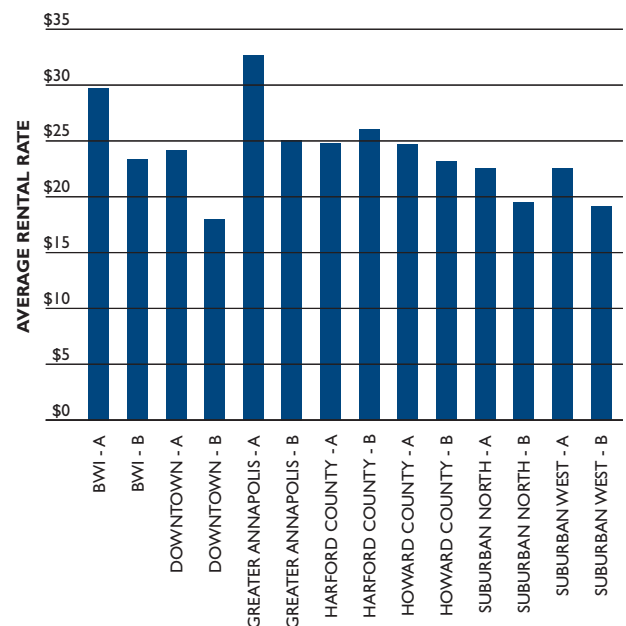
- A majority of the 2008 sales that did take place were located in the Baltimore-Washington corridor, a rapidly growing submarket that remains a target of many institutional investors due to its proximity to Washington, DC and growth in tenant demand from government agencies and related private sector contractors.
- Those investors who are fortunate to have the capital for investment will take a "flight to quality" mentality with regards to the assets they choose to pursue. In addition to location and building quality, a clear exit plan will be scrutinized.
- Today's lenders, life companies and local and regional banks, have scaled back lending volume and are further scrutinizing deals, resulting in loan to value ranges of 55%–65% and spreads over treasuries in the 350–450 point range.

Continued

BALTIMORE METROPOLITAN SUBMARKET



AVERAGE ASKING RENTS (PSF)



COLLIERS PINKARD OFFICE MARKET STATISTICAL OVERVIEW

BALTIMORE METROPOLITAN AREA | JANUARY 1, 2008 TO DECEMBER 31, 2008

	TOTAL BLDGS.	TOTAL SIZE (SF)	TOTAL AVAIL. (SF)	VACANCY RATE	TOTAL ABS. (SF)	%AVAIL. SUBLET	*FUTURE AVAIL. (SF)	SF UNDER CONST. (SF)	COMPLETED CONST. (SF)
DOWNTOWN									
"A" TIER	15	4,891,508	543,205	11.11%	23,053	11.90%	145,554	803,272	0
"A-2" TIER	22	4,312,871	897,804	20.82%	-103,427	18.56%	88,000	0	0
TOTAL "A" TIER	37	9,204,379	1,441,009	15.66%	-80,374	16.05%	233,554	803,272	0
"B" TIER	116	10,266,592	1,950,005	18.99%	20,601	2.74%	35,140	0	0
TOTAL:	153	19,470,971	3,391,014	17.42%	-59,773	8.40%	268,694	803,272	0
BWI AIRPORT									
"A" TIER	44	4,457,788	762,968	17.12%	142,274	13.17%	303,167	490,000	491,645
"B" TIER	94	4,765,625	865,335	18.16%	30,497	6.45%	266,355	161,800	209,564
TOTAL:	138	9,223,413	1,628,303	17.65%	172,771	9.60%	569,522	651,800	701,209
GREATER ANNAPOLIS									
"A" TIER	18	1,293,930	300,168	23.20%	111,311	9.90%	0	0	264,998
"B" TIER	67	2,035,163	128,199	6.30%	-39,192	19.01%	0	0	0
TOTAL:	85	3,329,093	428,367	12.87%	72,119	12.63%	0	0	264,998
HARFORD COUNTY									
"A" TIER	4	299,885	74,330	24.79%	12,825	5.33%	80,000	60,000	0
"B" TIER	7	199,330	22,354	11.21%	616	0.00%	0	0	0
TOTAL:	11	499,215	96,684	19.37%	13,441	4.10%	80,000	60,000	0
HOWARD COUNTY PERIMETER									
"A" TIER	54	4,588,803	976,487	21.28%	112,357	5.92%	102,832	341,283	469,292
"B" TIER	184	7,746,280	1,223,036	15.79%	51,520	11.97%	64,227	0	0
TOTAL:	238	12,335,083	2,199,523	17.83%	163,877	9.28%	167,059	341,283	469,292
HOWARD COUNTY TOWN CENTER									
"A" TIER	9	951,422	276,347	29.05%	-24,973	3.91%	0	0	0
"B" TIER	25	1,314,122	174,162	13.25%	-5,973	0.00%	0	0	0
TOTAL:	34	2,265,544	450,509	19.89%	-30,946	2.40%	0	0	0
HOWARD COUNTY TOTALS									
TOTAL "A" TIER	63	5,540,225	1,252,834	22.61%	87,384	5.48%	102,832	341,283	469,292
TOTAL "B" TIER	209	9,060,402	1,397,198	15.42%	45,547	10.47%	64,227	0	0
TOTAL HOWARD CO.:	272	14,600,627	2,650,032	18.15%	132,931	8.11%	167,059	341,283	469,292
SUBURBAN NORTH									
"A" TIER	73	6,121,027	966,168	15.78%	197,901	13.95%	128,961	0	244,280
"B" TIER	149	7,115,107	1,164,609	16.37%	-123,253	3.24%	94,566	0	0
TOTAL:	222	13,236,134	2,130,777	16.10%	74,648	8.10%	223,527	0	244,280
SUBURBAN WEST									
"A" TIER	31	2,797,327	473,518	16.93%	39,061	5.90%	43,473	0	180,000
"B" TIER	114	4,629,615	590,566	12.76%	2,957	13.28%	111,805	161,820	0
TOTAL:	145	7,426,942	1,064,084	14.33%	42,018	10.00%	155,278	161,820	180,000
MARKET TOTALS									
DOWNTOWN									
"A" TIER	37	9,204,379	1,441,009	15.66%	-80,374	16.05%	233,554	803,272	0
"B" TIER	116	10,266,592	1,950,005	18.99%	20,601	2.74%	35,140	0	0
TOTAL:	153	19,470,971	3,391,014	17.42%	-59,773	8.40%	268,694	803,272	0
SUBURBAN									
"A" TIER	233	20,510,182	3,829,986	18.67%	590,756	9.54%	658,433	891,283	1,650,215
"B" TIER	640	27,805,242	4,168,261	14.99%	-82,828	8.22%	536,953	323,620	209,564
TOTAL:	873	48,315,424	7,998,247	16.55%	507,928	8.85%	1,195,386	1,214,903	1,859,779
METROPOLITAN									
"A" TIER	270	29,714,561	5,270,995	17.74%	510,382	11.32%	891,987	1,694,555	1,650,215
"B" TIER	756	38,071,834	6,118,266	16.07%	-62,227	6.47%	572,093	323,620	209,564
TOTAL:	1,026	67,786,395	11,389,261	16.80%	448,155	8.72%	1,464,080	2,018,175	1,859,779

* Future Available includes unleased under construction square footage, and indicates space not currently vacant but becoming available after December 31, 2008.

Colliers Pinkard does not include owner or government buildings in this report.

- Preparing an investment property for sale in order to extract the most from the marketplace is again a positioning exercise that demands experience, focus, and attention to detail.

Outlook

The impact of the severe recession on the Baltimore office market may be buffered by the area's strong health care and higher education sector, BRAC-related growth at Ft. Meade and Aberdeen Proving Grounds, and a substantial state and federal government presence abetted by proximity to Washington, DC. This is not to say that the office market won't continue to experience rising vacancies next year as job growth slows and lay-offs rise. It is more that this economy is less dependent on those sectors hardest hit by this downturn—financial services, manufacturing, and retail.

Demand

- Average job growth through October (according to DLLR), was less than .4%.
- Job growth was strongest in professional and business services (up 2.4%) and education and health care and social services (2.02%).
- At 2008's job growth rate, it will take 2.5–3 years to return the market to a 12% vacancy rate. This recovery will be delayed if the growth rate stagnates or falls even lower.

Supply

- 47% of the space under construction has been pre-leased.
- Some of the largest buildings under construction—the 525,000-square-foot building at 701 Aliceanna Street (Legg Mason and Hogan & Hartson), the 278,000-square-foot 1300 Thames Street building (Morgan Stanley), the 160,000-square-foot 1550 W. Nursery Road building (Northrop Grumman), and 6721 Columbia Gateway Drive (Integral Systems)—have been substantially pre-leased.
- The Vacant and Under Construction Index, Colliers Pinkard's measure of the impact of new construction, is 19.2%, up from 18.8% in 2007. Given the lack of financing for new development, the construction spigot should be shut for new projects in 2009 that don't have substantial pre-leasing and developer equity.
- Next year will be challenging for landlords facing weak demand, assertive tenant negotiations, and the cost and availability of financing. Tenants facing cost constraints of their own will initiate steps to reduce occupancy cost, space, and the length of their lease terms. Late next year and early 2010, however, the market should begin to feel the impact of BRAC relocations which will eventually stabilize and grow occupancy.

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Colliers Pinkard recently completed the consolidation of its ownership structure with Colliers Turley Martin Tucker, Cassidy & Pinkard Colliers, and Colliers ABR, forming a holding company that is one of the nation's largest commercial real estate service firms. The consolidated entity completes more than \$13 billion in worldwide transactions annually and manages more than \$30 billion in real estate. The holding company's portfolio totals 300 million square feet under property management, 210 million square feet of space for lease, and \$5 billion in capital markets transactions annually. The Corporate Solutions division sustains more than 20,000 locations for Fortune 1,000 companies and delivers a new location "Every 80 Minutes."

ABOUT COLLIERS INTERNATIONAL

Colliers International is a global affiliation of independently owned commercial real estate firms. The organization's 10,092 employees span the world in 267 offices in 57 countries. On a worldwide basis, Colliers manages 672,945,918 square feet, and has revenue of \$US 1,620,958,349.



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